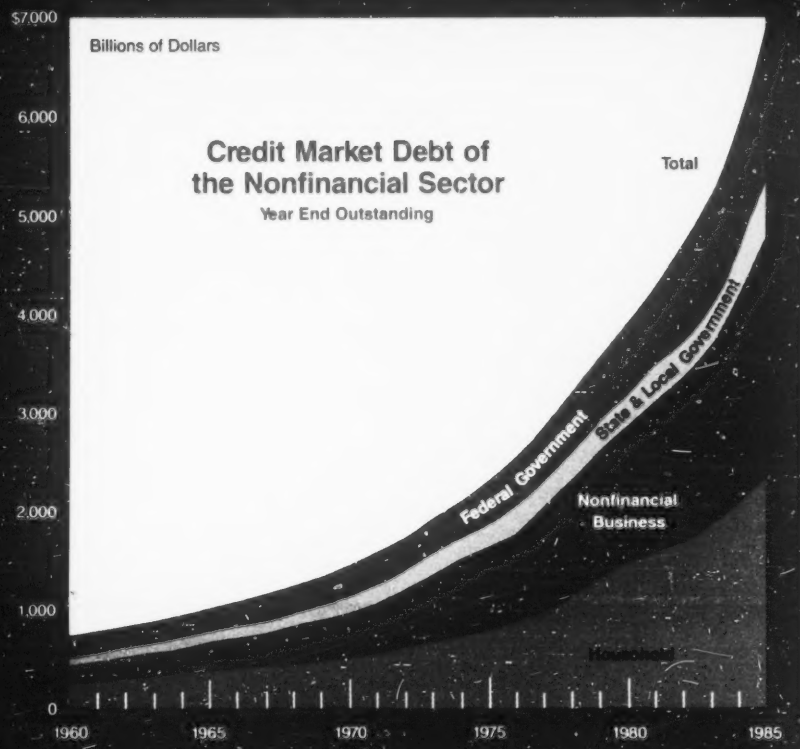
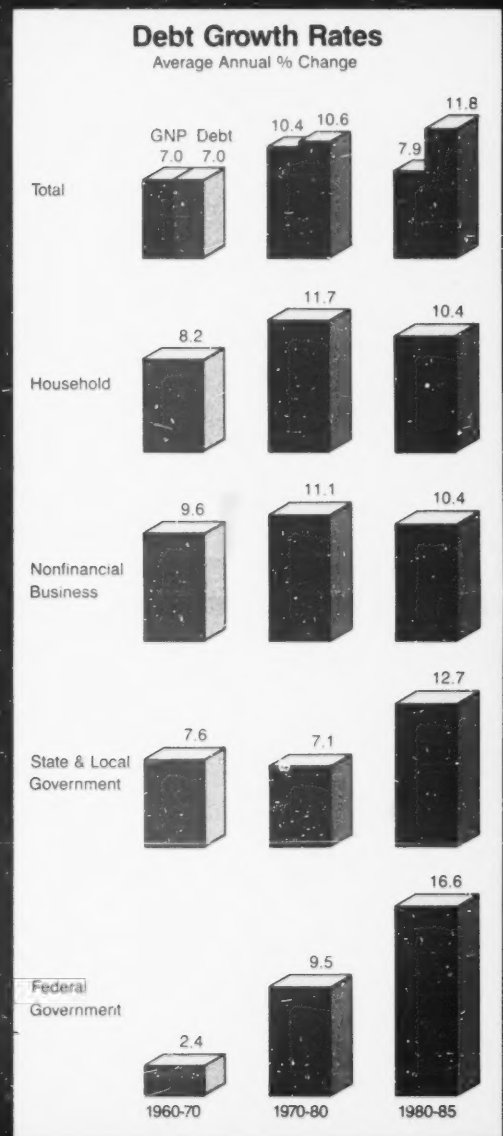
The Conference Board
70th Anniversary

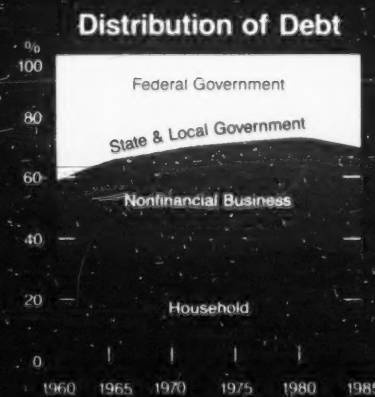
National Debt

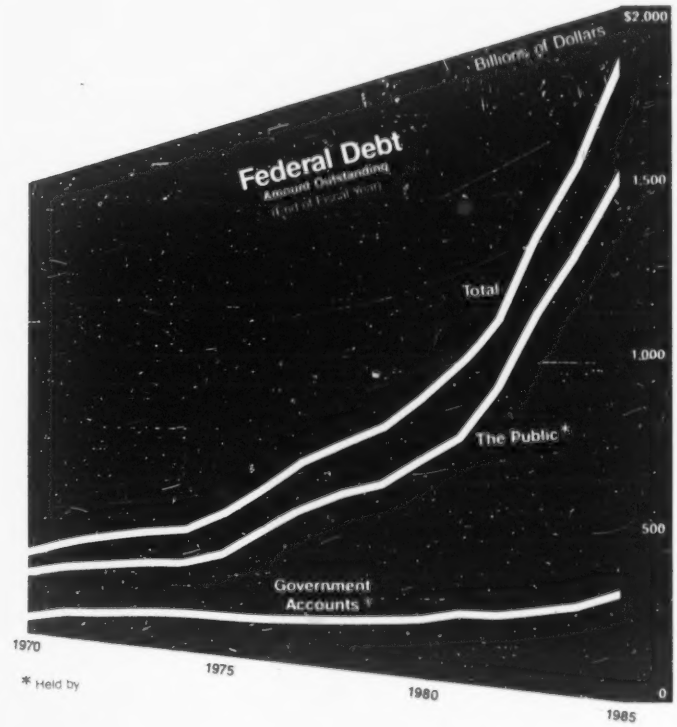
Economic Road Maps
Nos. 2003-2004
May, 1986

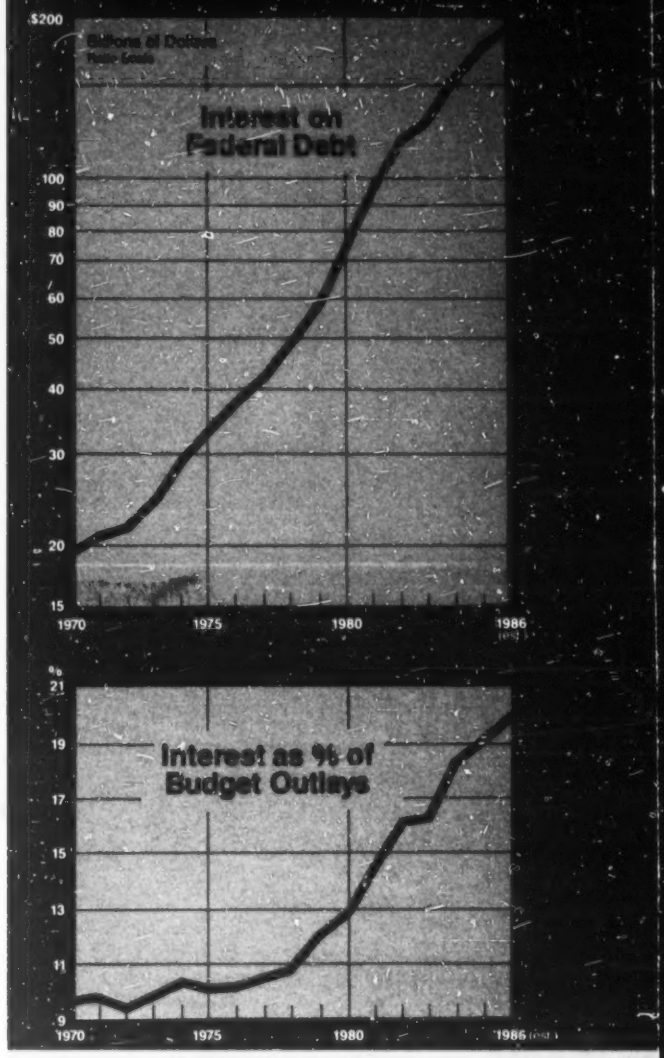
The rapid growth in the nation's debt, both public and private, is cause for some apprehension; domestic nonfinancial debt outstanding at the end of 1985 reached $7 trillion, an increase of $4 trillion since 1980. Moreover, debt growth has accelerated since 1980—with debt growing at an average rate of almost 12% while the economy was expanding at only 8 percent. (In earlier years debt and GNP grew at about the same rate.) The ratio of debt to GNP

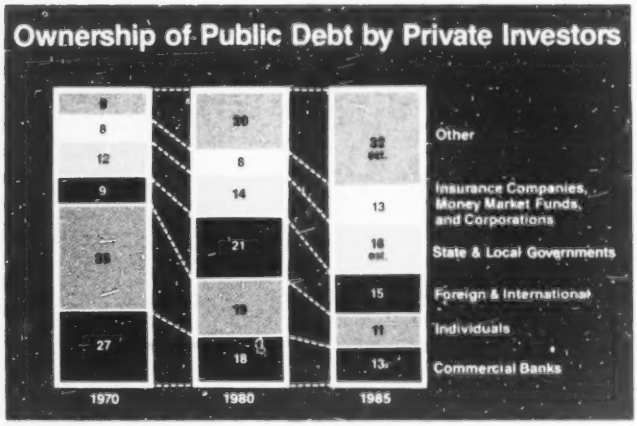


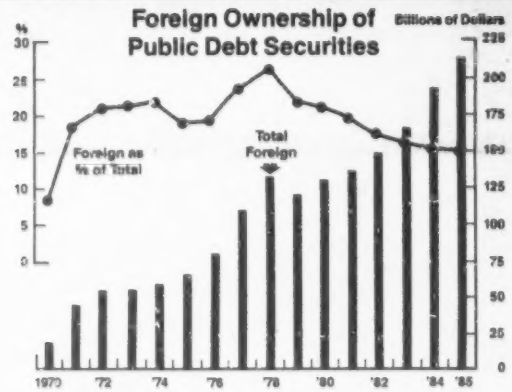


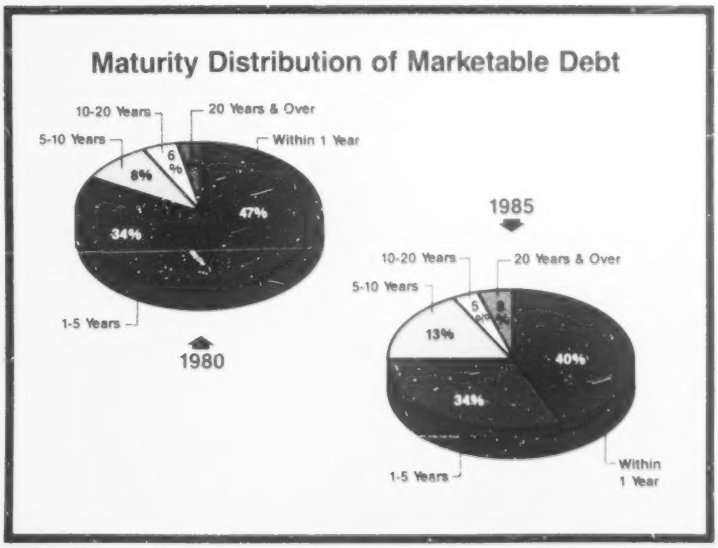






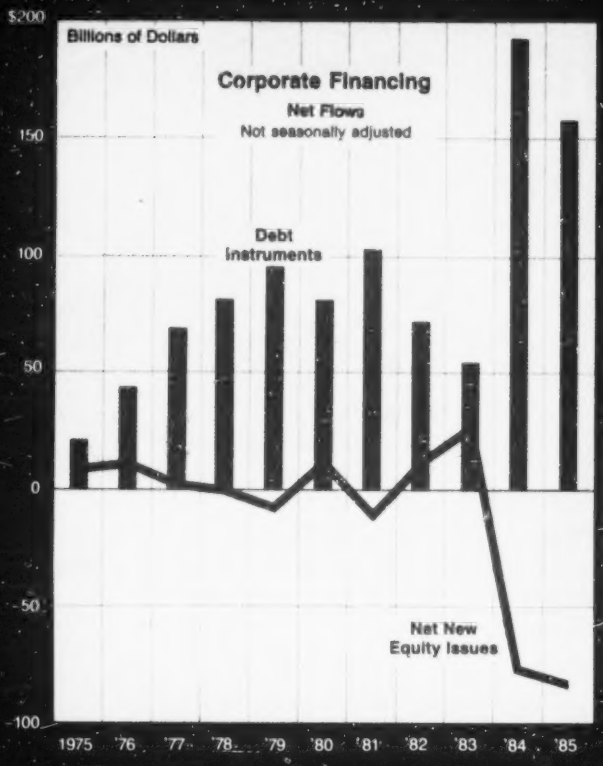


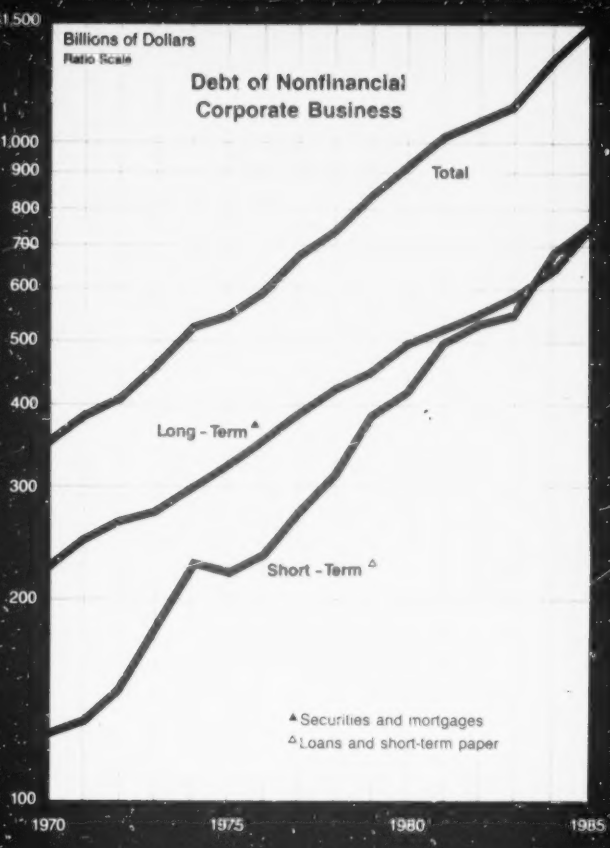




which had remained stable for most of the post World War II period at around 1.45 to one, has shot up since 1980 to a high of 1.72 in 1985.

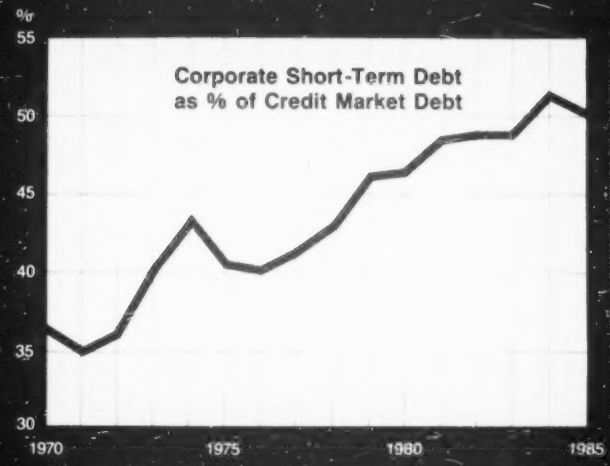
Federal debt grew from $500 billion in 1975 to $1.8 trillion in 1985; state and local debt added $500 billion to total government debt in 1985. During the past few years, the Treasury had to borrow heavily in order to balance the huge budget deficit. Interest cost on Federal debt is now almost $200 billion annually, and accounts for almost one-fifth of budget outlays, double the rate of only ten years ago.

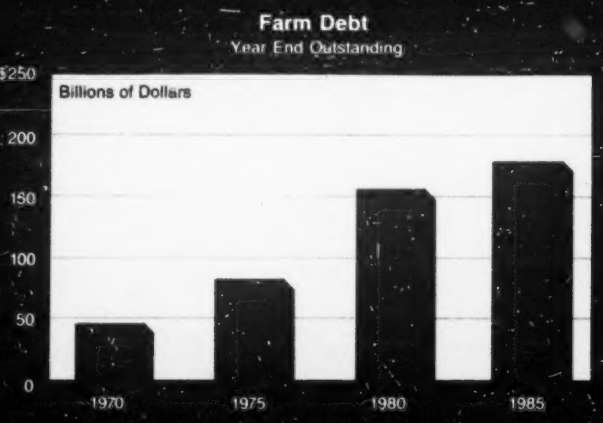


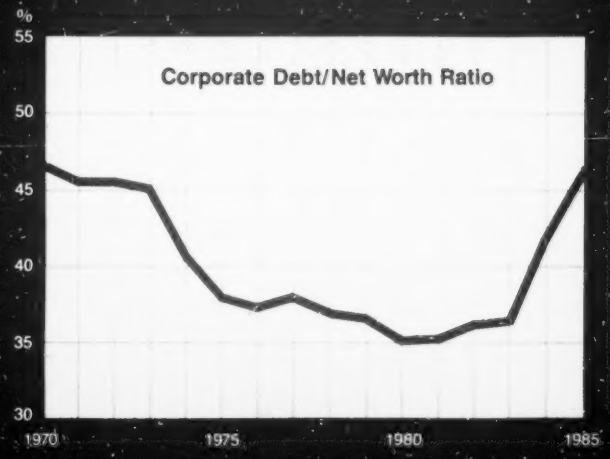


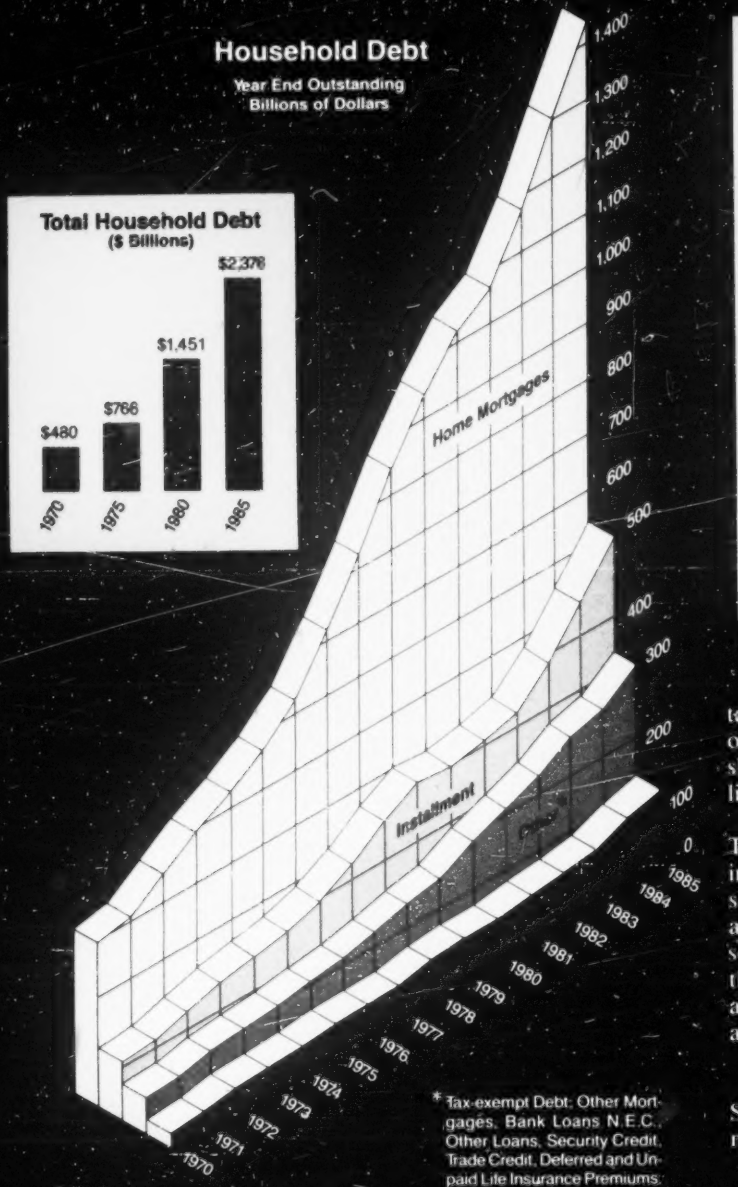
Foreign investors' holdings of U.S. Treasury securities have also grown considerably and totaled $215 billion in 1985 or 15% of publicly held securities. While the inflow of foreign capital helped to finance the budget deficit, the share of foreign ownership is viewed with some misgiving. The influx of foreign capital was fueled by a great imbalance in U.S. foreign trade which left foreign investors with huge surpluses of dollars. The decline in the value of the dollar and the resulting improvement in the trade balance should help to slow the flow of foreign funds into government securities.

Nonfinancial corporate debt outstanding in 1985 was $1.5 trillion and, for the second year in a row, short-term financing accounted for over 50% of the total. The high levels of borrowing were due mainly to the activity in mergers and acquisitions and, occasionally, to fight off hostile takeovers. There was also an unprecedented liquidation of equity during the past two years — some $160 billion was taken out of the equity market; debt instruments rose over $360 billion during the corresponding period. Such reductions in capi-

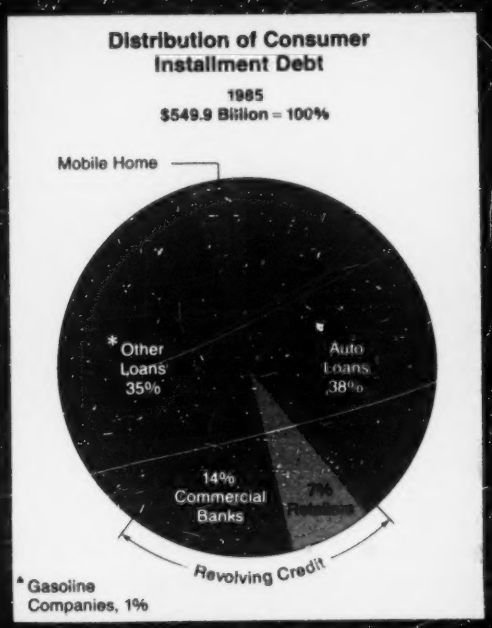








* Tax-exempt Debt; Other Mortgages, Bank Loans N.E.C., Other Loans, Security Credit, Trade Credit, Deferred and Unpaid Life Insurance Premiums.



* Banks, Finance Companies, Credit Lines, and Retailers

tal stock are highly unusual and have occurred only on a minor scale in past years. Higher share prices should eventually act as a deterrent to further equity liquidation.

Households have borrowed heavily in recent years. The increase in borrowing was fueled by a proliferating availability of credit and a tax system which subsidizes borrowing at the expense of savings, as well as a continued rise in the value of household assets. With some $2½ trillion of debt outstanding at year end 1985, there are some warning signals—for instance, debt now accounts for 85% of disposable personal income, an all-time high.

Eva Culen

Sources: Federal Reserve Board; U.S. Depts. of Commerce, Treasury & Agriculture; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Jou, Chief Chartist
Prices for Quantities of this chart will be supplied on request to Information Service

Published by
THE CONFERENCE BOARD, INC.
845 Third Avenue, New York, NY 10022 Avenue Louise, 207 Bte 3, B-1050 Brussels, Belgium
THE CONFERENCE BOARD OF CANADA
255 Smyth Road, Ottawa, Ontario K1H 8M7, Canada